

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/15)

| | | | |
|---|-----------------------|---|-------------------|
| Fiscal Year 2016-17 | Business Unit 7100 | Department Employment Development Department | Priority No. 2 |
| Budget Request Name 7100-908-BCP-BR-2016-MR | | Program 5925 | Subprogram |

Budget Request Description
Paid Family Leave and State Disability Insurance Rate Increase (AB 908)

Budget Request Summary

This Budget Change Proposal (BCP) requests a one-time augmentation of \$5,028,000 in State Fiscal Year (SFY) 2016-17, along with a one-time augmentation of \$629,000 in SFY 2017-18, to support the costs incurred as a result of Assembly Bill (AB) 908 (Chapter 5, Statutes of 2016). These resources will be used to fund vendor contracts and 16.4 Personnel Equivalents to perform modifications to the State Disability Insurance (SDI) program applications and processes as required to comply with AB 908. AB 908 modifies the SDI program by increasing the wage replacement rate to 60 percent for middle and high income workers, and to 70 percent for low income workers. In order to comply with AB 908, extensive programming of the Employment Development Department's automated systems is required along with updates to SDI forms, publications, procedures, and training.

| | | |
|---|--|----------------|
| Requires Legislation <input type="checkbox"/> Yes <input type="checkbox"/> No | Code Section(s) to be Added/Amended/Repealed | |
| Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i> | Department CIO <i>Neil Drekhovse</i> | Date 5-5-16 |
| For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date: | | |

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department. signed and dated by the department director or designee.

| | | | |
|---|-----------------|--|-----------------|
| Prepared By <i>Scott V. Lee</i> | Date 4-28-16 | Reviewed By <i>[Signature]</i> | Date 4/28/16 |
| Department Director <i>[Signature]</i> | Date 5/9/16 | Agency Secretary <i>[Signature]</i> | Date 5-10-16 |

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA

Date submitted to the Legislature

A. Budget Request Summary

This Budget Change Proposal (BCP) requests a one-time augmentation of \$5,028,000 in State Fiscal Year (SFY) 2016-17, along with a one-time augmentation of \$629,000 in SFY 2017-18, to provide resources for the implementation of Assembly Bill (AB) 908 (Chapter 5, Statutes of 2016). These resources will be used to fund vendor contracts and 12.1 Personnel Equivalents in 2016-17 and 4.3 Personnel Equivalents in 2017-18 to perform technological and system modifications to the State Disability Insurance (SDI) program applications. AB 908 modifies the SDI program by increasing the wage replacement rate to 60 percent for middle and high income workers, and to 70 percent for low income workers. In order to comply with AB 908, extensive programming of the Employment Development Department's automated systems is required along with updates to SDI forms, publications, procedures, and training.

B. Background/History

California SDI is a partial and temporary wage replacement insurance plan for California workers. The SDI program is state-mandated and funded through employee payroll deductions. Workers covered by SDI are covered by two benefits: Disability Insurance (DI) and Paid Family Leave (PFL). An estimated 17 million California workers are covered by the SDI program. The DI program provides short-term benefits to workers who suffer a wage loss when they are unable to work due to a non-work-related illness, injury, or pregnancy. Benefits are payable for up to 52 weeks.

In 2002, the PFL program was established in California – the first state in the nation to have such a program. This program provides benefits to individuals who take time off work to bond with a new child or to care for a seriously ill family member, including a spouse, registered domestic partner, child, parent, parent-in-law, grandparent, grandchild, or sibling. The PFL benefits are payable for up to six weeks.

The benefit amounts and the contribution rate for both DI and PFL are the same. For claims beginning on or after January 1, 2016, weekly benefits range from \$50 to a maximum of \$1,129. The maximum weekly benefit amount is increased each year by a statutory formula. The weekly benefit amount is calculated based on the calendar quarter with the highest earnings in the claimant's base period. The base period covers 12 months and is divided into four consecutive quarters each consisting of 13 consecutive calendar weeks. The wages the claimant was paid approximately 5 to 18 months before the claim begins are included in the base period. The weekly benefit amount for PFL and DI is approximately 55 percent of the claimant's earnings up to the maximum weekly benefit amount.

The SDI program is funded by workers through a payroll deduction. The contribution rate is calculated each year according to a formula in statute, with a maximum allowable rate of 1.5 percent. The contribution rate for 2016 is 0.9 percent. Covered employees have paycheck withholdings up to a designated wage ceiling, which is also calculated by a formula in statute. The taxable wage ceiling is \$106,742 in 2016.

The first week of a claim for DI or PFL benefits is an unpaid waiting period week lasting for seven days. Individuals may use any available leave from their employers to cover that week; however, no benefits are payable for the first week of the claim.

AB 908 modifies the SDI program by increasing the wage replacement rate for both the DI and PFL programs to 60 percent for middle and high income workers, and to 70 percent for low income workers. This increase will take effect in January 2018, and would sunset on January 1, 2022. This bill also repeals the unpaid one-week waiting period for PFL benefits and requires a report to the Legislature on the impact of reducing or eliminating the current one-week waiting period for the DI program.

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Resource History (Dollars in thousands)

| State Operations and Local Assistance | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Authorized Expenditures | \$5,387,641 | \$5,427,362 | \$5,745,244 | \$5,785,285 | \$5,939,913 |
| Actual Expenditures | \$5,138,034 | \$5,103,594 | \$5,126,857 | \$5,313,941 | \$5,628,525 |
| Actual PEs | 1,934.2 | 1,882.6 | 2,054.3 | 1,816.2 | 1,813.0 |

Workload History

| Workload Measure | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|-----------------------------------|---------|---------|---------|---------|---------|
| SDI First Claims Filed | 734,650 | 732,812 | 678,263 | 695,182 | 697,485 |
| PFL First Claims Filed | 204,893 | 210,167 | 215,830 | 227,830 | 237,246 |
| SDI First Claims Paid | 656,292 | 655,822 | 611,193 | 633,586 | 634,357 |
| PFL First Claims Paid | 194,777 | 200,246 | 202,624 | 213,779 | 224,822 |
| SDI Average Weekly Benefit Amount | \$446 | \$448 | \$464 | \$479 | \$487 |
| PFL Average Weekly Benefit Amount | \$488 | \$497 | \$517 | \$532 | \$543 |

C. State Level Considerations

The benefit changes proposed by AB 908 would result in estimated additional SDI benefits paid of \$348 million in 2018, an increase of approximately five percent over the projected benefit amounts estimated under current law. This bill would also increase the projected contribution rate that workers would pay. Based on EDD's October 2015 SDI Fund Forecast, the projected contribution rate in 2019 is 1.1 percent. Under AB 908, the contribution rate in 2019 is projected to be 1.2 percent. The maximum rate allowed by law is 1.5 percent.

Removing the waiting period for all PFL claims instead of solely for new mother claims and increasing the Weekly Benefit Amount (WBA) issued to DI/PFL claimants supports California's emphasis on customer service. These actions will also align with the DI Branch Strategic Plan goal of improving the quality of customer service.

Eliminating the waiting period for PFL benefits will have a minimal impact on the DI Fund and will allow claimants to exhaust their PFL benefits after 6 weeks (under current law, approximately 44 percent of the PFL claimants, including transitional bonding claims which do not have the waiting period requirement, only receive the full six weeks of paid PFL benefits after being out of work for a total of seven weeks).

D. Justification

The EDD will need to make programming changes to two major IT systems - the Single Client Database (SCDB) and the SDI Online system. The SCDB is EDD's main database and contains the wage and benefit data for the Unemployment Insurance and SDI programs. The SDI Online system allows customers to file SDI claims online. These systems would need to be programmed to capture the state average weekly wage for benefit calculation, and provide editing capabilities to accommodate future increases to the average weekly wage. EDD IT staff will be utilized to make changes to the SCDB, while vendor staff will be leveraged to make changes to the SDI Online system.

For SFY 2016-17, EDD requires 11.1 PEs of state IT staff and one program position for the following activities in addition to the vendor:

- Project management including scheduling, identifying and managing project risk
- Requirements elicitation and refinement

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- Developing test scripts, test plans for system, interface, user, penetration, end to end and stress testing (these are done by non-prime vendor staff to ensure the solution truly meets the Department's needs)
- Analysis, design, coding, and testing of mainframe (SCDB) changes to both the SDI and PFL calculations
- Setting up performance environments, databases, and providing support during project phases
- Updating of SDI/PFL forms and publications, updating of information on the EDD website, and updating manuals and procedures for staff along with providing staff training on the new program changes

Additionally, a significant portion (\$3.3 million) of the estimated one-time IT costs would be for a vendor to make changes to the SDI Online system, and for testing of those changes by vendor staff (along with EDD staff). Changes would also be required to the PFL application and the claims scanning/data capture system that EDD uses.

For SFY 2017-18, EDD requires 4.3 PEs of state IT staff for continued testing of the changes to the SCDB and SDI Online applications and to ensure that they will be able to revert to the previous calculation methodologies (effective January 1, 2022, per the provisions of AB 908). The required legislative reports will also be developed during this time period.

In order to meet the January 1, 2018, implementation date for AB 908, the EDD will need to begin a number of tasks in late SFY 2015-16. These tasks include beginning to outline the new business requirements that will result from AB 908 and refining the vendor procurement schedule.

E. Outcomes and Accountability

The main outcome of this BCP will be compliance with the legislatively mandated requirements of AB 908. The DI Branch also anticipates a slight increase in the number of initial and continued claims as a result of removing the PFL waiting period and increasing the WBA. This workload increase is projected to be approximately 1 percent in initial DI claims and 3 percent in DI continued claims. For PFL, the workload increase is anticipated to be approximately 8 percent in initial claims filed, with no increase in continued claims. Provisional language in the Budget Act allows the EDD to adjust its staffing and benefit amounts for the DI and PFL programs associated with workload changes in October and April each year.

The EDD project management framework will ensure accountability for the requested funds. All vendor contracts related to this project will be deliverables-based to ensure delivery of appropriate hardware, software, documentation, etc., prior to payment. The vendor contracts will include language that states EDD shall be the sole judge of the acceptance of all work performed and all work products produced by the contractor to ensure quality standard are met.

The EDD uses the Cost and Resources Management Group within the Information Technology Branch to account for all dollars spent on staffing, hardware, software, and vendor contracts. EDD management will review staffing reports to ensure all project team members are fully engaged on the project.

EDD will report to the Legislature by March 1, 2021, how DI and PFL benefits are utilized based on income categories, the cost of the increased wage replacement rates, and on the SDI contribution rates. EDD will also perform a cost/benefit analysis of the one-week waiting period for DI claims.

F. Analysis of All Feasible Alternatives

Proposed Alternative – Implement system and operational changes required by AB 908 legislation.

a. Pros:

- Increasing current wage replacement rate benefits low-wage earners that can't absorb the pay cut imposed when leave is taken for disability, bonding and caregiving.
- Eliminating a seven-day waiting period for PFL means benefits reach claimants more quickly who have an extended caregiving need.
- Initiates a study on the costs and benefits of modifying or eliminating the PFL waiting period.

b. Cons:

- Increases in DI and PFL program usage may necessitate increase staffing.
- Will likely increase the contribution rate that workers pay.
- Without further data, it's unknown if this bill will encourage more low-wage workers to utilize the PFL program.

Alternative #1 – Redirect existing funding to implement the system and operational changes as required by AB 908 legislation.

a. Pros:

- Increasing current wage replacement rate benefits low-wage earners that can't absorb the pay cut imposed when leave is taken for disability, bonding and caregiving.
- Eliminating a seven-day waiting period for PFL means benefits reach claimants more quickly who have an extended caregiving need.
- Initiates a study on the costs and benefits of modifying or eliminating the PFL waiting period.

b. Cons:

- Will directly impact DI program service levels as EDD would have to reduce DI program staffing in order to redirect DI resources to this effort.
- Increases in DI and PFL program usage may necessitate increase staffing.
- Will likely increase the contribution rate that workers pay.
- Without further data, it's unknown if this bill will encourage more low-wage workers to utilize the PFL program.

G. Implementation Plan

The table below provides a schedule of milestones and targeted completion dates for this project:

| Major Milestones | Estimated completion dates |
|-------------------------|-----------------------------------|
| Project Initiation | May 31, 2016 |
| Requirements Phase | June 30, 2016 |
| Design Phase | September 30, 2016 |
| Development Phase | June 30, 2017 |
| Testing Phase | September 30, 2017 |
| Implementation | October 24, 2017 |
| Project Closeout | February 1, 2018 |

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Assumptions for Meeting Implementation Milestones:

- 1) New benefit computation formulas will be designed to allow the new benefit calculation and the potential reversion back to the old benefit calculation to be programmed at the same time.
- 2) Application changes are needed to remove the waiting period for all PFL claims.
- 3) No functionality will be included to remove the waiting period for DI Claims.
- 4) Database changes will be required to store State Average Weekly Wage and additional Computation Year Codes in three computer systems.
- 5) PFL Transitional Bonding claims will continue to "inherit" the same WBA as the SDI pregnancy claim that precedes them.
- 6) Determination notices referring to the PFL waiting period will need to be changed.
- 7) A new report will need to be created to provide information to the Legislature on utilization, cost and rates with respect to PFL and DI.

H. Supplemental Information (*Describe special resources and provide details to support costs including appropriate back up.*)

There are supplemental costs for this BCP totaling \$3.3 million for vendor contracts.

I. Recommendation

The EDD recommends approval of this BCP to provide funding to support the implementation of system and operational changes required by AB 908 legislation.

BCP Fiscal Detail Sheet

BCP Title: Paid Family Leave and State Disability Insurance Rate Increase (AB 908)

DP Name: 7100-908-BCP-DP-2016-MR

Budget Request Summary

| | FY16 | | | | | |
|--|------------|----------------|--------------|------------|------------|------------|
| | CY | BY | BY+1 | BY+2 | BY+3 | BY+4 |
| Positions - Temporary | 0.0 | 12.1 | 4.3 | 0.0 | 0.0 | 0.0 |
| Total Positions | 0.0 | 12.1 | 4.3 | 0.0 | 0.0 | 0.0 |
| Salaries and Wages | | | | | | |
| Earnings - Temporary Help | 0 | 970 | 359 | 0 | 0 | 0 |
| Total Salaries and Wages | \$0 | \$970 | \$359 | \$0 | \$0 | \$0 |
| Total Staff Benefits | 0 | 518 | 192 | 0 | 0 | 0 |
| Total Personal Services | \$0 | \$1,488 | \$551 | \$0 | \$0 | \$0 |
| Operating Expenses and Equipment | | | | | | |
| 5340 - Consulting and Professional Services - External | 0 | 3,320 | 0 | 0 | 0 | 0 |
| 539X - Other | 0 | 220 | 78 | 0 | 0 | 0 |
| Total Operating Expenses and Equipment | \$0 | \$3,540 | \$78 | \$0 | \$0 | \$0 |
| Total Budget Request | \$0 | \$5,028 | \$629 | \$0 | \$0 | \$0 |

Fund Summary

| | | | | | | |
|--|------------|----------------|--------------|------------|------------|------------|
| Fund Source - State Operations | | | | | | |
| 0588 - Unemployment Compensation Disability Fund | 0 | 5,028 | 629 | 0 | 0 | 0 |
| Total State Operations Expenditures | \$0 | \$5,028 | \$629 | \$0 | \$0 | \$0 |
| Total All Funds | \$0 | \$5,028 | \$629 | \$0 | \$0 | \$0 |

Program Summary

| | | | | | | |
|-------------------------------------|------------|----------------|--------------|------------|------------|------------|
| Program Funding | | | | | | |
| 5925 - Disability Insurance Program | 0 | 5,028 | 629 | 0 | 0 | 0 |
| Total All Programs | \$0 | \$5,028 | \$629 | \$0 | \$0 | \$0 |

Personal Services Details**Salary Information**

| Positions | Min | Mid | Max | <u>CY</u> | <u>BY</u> | <u>BY+1</u> | <u>BY+2</u> | <u>BY+3</u> | <u>BY+4</u> |
|------------------------|-----|-----|-----|------------|-------------|-------------|-------------|-------------|-------------|
| TH00 - Temporary Help | | | | 0.0 | 12.1 | 4.3 | 0.0 | 0.0 | 0.0 |
| Total Positions | | | | 0.0 | 12.1 | 4.3 | 0.0 | 0.0 | 0.0 |

| Salaries and Wages | <u>CY</u> | <u>BY</u> | <u>BY+1</u> | <u>BY+2</u> | <u>BY+3</u> | <u>BY+4</u> |
|---------------------------------|------------|--------------|--------------|-------------|-------------|-------------|
| TH00 - Temporary Help | 0 | 970 | 359 | 0 | 0 | 0 |
| Total Salaries and Wages | \$0 | \$970 | \$359 | \$0 | \$0 | \$0 |

| Staff Benefits | | | | | | |
|--|------------|----------------|--------------|------------|------------|------------|
| 5150200 - Disability Leave - Industrial | 0 | 6 | 2 | 0 | 0 | 0 |
| 5150210 - Disability Leave - Nonindustrial | 0 | 1 | 0 | 0 | 0 | 0 |
| 5150350 - Health Insurance | 0 | 169 | 62 | 0 | 0 | 0 |
| 5150450 - Medicare Taxation | 0 | 13 | 5 | 0 | 0 | 0 |
| 5150500 - OASDI | 0 | 57 | 21 | 0 | 0 | 0 |
| 5150600 - Retirement - General | 0 | 239 | 90 | 0 | 0 | 0 |
| 5150700 - Unemployment Insurance | 0 | 1 | 0 | 0 | 0 | 0 |
| 5150800 - Workers' Compensation | 0 | 32 | 12 | 0 | 0 | 0 |
| Total Staff Benefits | \$0 | \$518 | \$192 | \$0 | \$0 | \$0 |
| Total Personal Services | \$0 | \$1,488 | \$551 | \$0 | \$0 | \$0 |